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### US Jordan Bilateral Relations

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## **US Jordan Bilateral Relations**

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## **Introduction**

Even though the United States and Kingdom of Jordan have never signed a formal treaty, the relationship between the two countries has been close. The continued stability of Jordan, the increasing role that Jordan is playing in stabilizing Iraq, the cooperation of Jordan in the peace process, and the military and intelligence cooperation between the two countries are of primary strategic interest for the United States. As a reflection of this strategic interest, the US Jordan became a major recipient of U.S. assistance, both military and economic, in the 1990s. Between 1998 and 2002, annual U.S. aid to Jordan was approximately \$150 million in economic assistance and \$75 million in military assistance. In 2003, primarily as a result of Jordan's support for the U.S. war against terrorism and operations in Iraq, U.S. assistance to Jordan has increased. Total economic assistance since 1952 now exceeds \$4.4 billion. The US views the economic and military stability of Jordan as being an essential component in the ongoing stabilization efforts in the Middle East.

## **Overview of Jordan**

The Hashemite Kingdom of Jordan is a middle income country with a population of 6.5 million that is highly urbanized, at around 80 percent. Jordan's economy is open but with few natural resources and little manufacturing. The country has a large skilled population that works abroad. Jordan has inadequate supplies of water and consists mainly of arid desert with around 4% arable land. Its main natural resources are potash and phosphate. A substantial percentage of the population, 32% is under the age of fourteen resulting in a rapid increase in the working age population. Jordan currently has a large disparity between its official and unofficial employment rates at 13.5% and 30% respectively.<sup>1</sup>

The government is a hereditary constitutional monarchy. The prime minister and the cabinet (Council of Minister) are appointed by the king. Jordan has a legislature comprised of an elected 110 member lower house and an appointed 55 member upper house. The Jordanian parliament has limited power. Since parliament has a pro-government majority, it rarely attempts any actions contrary to the wishes of the king. The constitution allows the king to dissolve parliament, postpone elections, declare martial law and suspend the constitution. The king can also issue decrees not subject to parliamentary oversight and can issue provisional legislation when parliament is not in session.

In terms of human development, Jordan is higher than average in comparison to middle income countries. This is the result of consistently high levels of spending—more than 25 percent of GDP—on human development factors such as education, health, pensions, and social security. In addition, Jordan emphasizes a high level of gender parity in access to basic public services. However, population pressures and increasing income levels are

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<sup>1</sup> CIA. (2008). Retrieved August 25, 2008 from: <https://www.cia.gov/library/publications/the-world-factbook/geos/jo.html>.

placing escalating demands on the existing education and health services.<sup>2</sup> In addition, there is an increasing recognition for the need for acceleration of educational reforms to produce students functional in a knowledge based economy.

Services constitute a significant portion of Jordan's GDP. In 1980, services accounted for approximately 64 percent of GDP rising to 72 percent in 2003. This high percentage is a direct result of policies designed to develop the financial sector, to accommodate inflows of workers' remittances, and tourism, as an important source of foreign exchange.

Jordan depends on one of the world's highest share of workers' remittances, about 20% of GDP, to support its balance of payments. The country developed into a provider of skilled technical and professional manpower and services for neighboring Arab countries. Its private and public institutions effectively became training centers for manpower that eventually migrated to the oil rich Arab countries. Remittances and foreign aid allowed Jordan to maintain income and consumption patterns exceeding those available from domestic production capacity. The GNI per capita in 2006 was \$7,448 (current US\$), which afforded the population one of the highest regional per capita disposable income compared to other emerging countries.<sup>3</sup> The relatively comfortable economic situation can be credited as contributing to the country's ability to maintain social and political stability.

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<sup>2</sup>International Monetary Fund. (2008). Retrieved September 12, 2008 from: <http://www.imf.org/external/country/JOR/index.htm?pn=0>.

<sup>3</sup> The World Bank Group. (2008). Retrieved August 25, 2008 from: <http://devdata.worldbank.org/external/CPPProfile.asp?SelectedCountry=JOR&CCODE=JOR&CNAME=Jordan&PTYPE=CP>

Table 1: Estimate of Jordanians working abroad<sup>4</sup>

	1975	1980	1985	1995	2001	2003	2006
Arab countries	264,700	261,500	276,000	200,000	215,200	265,500	---
Other countries	39,500	43,900	52,000	21,700	26,100	28,500	---
Total	304,200	305,400	328,000	221,700	241,300	294,000	450,000

Table 2: Value of Jordanian workers' remittances (current year millions of dollars)<sup>5</sup>

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Payments	93	107	100	200	207	204	197	193	194	227	272
Receipts	1094	1244	1544	1655	1543	1664	1845	2011	2135	2201	2287
GDP	6237	6732	6928	7246	7912	8134	8447	8941	9448	9952	10814
% of GDP	19	20	23	26	22	23	24	25	25	24	24

In the early 1990s, the Jordanian economy was highly regulated and recovering from an exchange rate and banking crisis. Economic growth was due to housing investment and external trade and exports were predominantly mining and agricultural products. The government controlled a significant share of industrial production and regulated commodity prices.

<sup>4</sup> Razzaz and Iqbal (2008)

<sup>5</sup> Jordan Ministry of Industry and Trade and United Nations Conference on Trade and Development (2006).

In addition, Jordan's neutral stance during the Gulf War disrupted its relations with the US and the Gulf States. This resulted in a severe decline in the economic and military aid that Jordan received. The country was also struggling to absorb approximately 300,000 Jordanian refugees as a result of the Gulf War. Tourism, a major component of Jordan's GDP, suffered a major decline.

Since the early 1990s, Jordan has undertaken some broad economic reforms aimed at stabilization by reducing the budget deficit and the foreign debt through forgiveness and rescheduling. In 1994, the U.S. Congress, in recognition of Jordan's support for the Middle East peace process, passed legislation to forgive \$702.3 million debt to the U.S. This represented almost 10% of Jordan's debt. However, Jordan's other creditors such as Japan, World Bank, Germany, France, and the U.K. were largely unwilling to forgive the nation's debts. In a series of meeting with Paris Club creditors in the late 1990s, Jordan did succeed in rescheduling its debt to the 11 members of the Club. This relieved Jordan of debt servicing payments until 2007. In 2007, reflecting the improved economic and financial performance of Jordan, the country undertook early repayment of its debt. In addition, the Jordanians reduced trade tariffs and regulations, freed most commodity prices, and pursued a market orientation primarily through privatization.<sup>6</sup> By 2000, the government managed to liberalize the trade regime sufficiently to secure Jordan's membership in the World Trade Organization (WTO) with major diplomatic support from the U.S. To facilitate WTO membership, Jordan amended its customs laws and enacted legislation protecting intellectual property rights. The nation also lowered tariff levels and liberalized its trade regime.

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<sup>6</sup> \$900 million in state-owned enterprise assets have been transferred to private-sector control as of 2004, Ministry of Foreign Affairs, Jordan.

Jordan also began to privatize public sector companies as part of its ongoing economic reforms and as a means of encouraging private investment. Following the successful privatization of the telecommunications and cement sector, the Jordanian Government sold 51% of the Central Electricity Generating Company in 2007 and plans to sell shares in the Irbid District Electricity Company, the As-Samra electrical power plant, and the Electricity Distribution Company. In addition, an initial public offering for the national carrier Royal Jordanian began in 2007. The government has accepted a build/operate/transfer bid for the expansion and management of the international airport and drafted a new energy law to open up the hydrocarbon refining sector for investors.

The economic crisis of the 1990s spurred the Jordanian authorities to enact extensive reforms in the Jordanian dinar exchange rate. The exchange rate was managed by a currency board from 1950-64. The U.K. pound was used as an anchor. From 1965-88, the dinar was pegged to the SDR within a margin of 2.25 percent. The dinar was allowed to float for a brief period in 1988 but was pegged again, with frequent adjustments, to the SDR from 1989-95. Since 1995, the dinar has been pegged to the dollar at 0.71 dinar to the dollar.

Building on the related reforms enacted in 2000, Jordan and the US began implementation of the Free Trade Agreement in December 2001, positioning Jordan as the fourth country (after Canada, Mexico, and Israel) to enjoy such a relationship with the US; Jordan also has an Association Agreement with the European Union. These measures have helped improve productivity and increased foreign investments in Jordan.

Jordan imported most of its oil from Iraq at a concessionary price. However, as a result of the US-led war in Iraq in 2003, Jordan was forced to import oil from other Gulf nations. This forced the Jordanian government to both raise the retail petroleum product

prices and sales tax base. The increase in petroleum product prices resulted in a spike in consumer price inflation and a marked increase in the current account deficit. Jordan's export market, which is heavily dependent on exports to Iraq, was also affected by the war. The market recovered quickly, however, due to the Iraq rebuilding effort.

Historically, Jordan has had difficulty attracting investments. The development of the US Jordan Free Trade Area Agreement (FTA), QIZ, the Aqaba Special Economic Zone (ASEZA), are government attempts to more closely integrate Jordan into the global economy by spurring trade and investment.

Substantial differences exist between the FTA and QIZ. U.S. officials established the legal framework for QIZs in 1996 by offering special duty and quota free access to goods produced with specified minimum Jordanian, Palestinian, and Israeli content. To qualify a minimum of 35 percent of the product's appraised value must be produced in the QIZ. The 35 percent may be arrived at using one of three methods. The first method requires content of 11.7 percent from a Jordan QIZ and 8 percent from Israel (7 percent for high tech). The remaining content may come from Jordan, Israel, West Bank/Gaza, and the U.S. The second method requires that Jordanian and Israeli manufacturers maintain at least 20 percent of the total production cost. The third involves a combination of the first two methods. Textiles and apparel have been the primary products of QIZ to circumvent the high US custom duty on these items. Jordan feared that the 2005 expiration of the WTO multi-fiber agreement, which would allow China unimpeded access to the U.S. market, would render the QIZs unprofitable. The Bush administration, however, re-imposed textile quotas in some categories imported from China allowing a limited increase in imports to the U.S.. As a

result, Jordan experienced a rise in the number of QIZ companies registering in 2005. The QIZs ownership is overwhelmingly non Jordanian.

The FTA is a phased arrangement, only eliminating duties on a number of products after 10 years. Products exported from QIZs have immediate duty and quota free access. The rules of product origin are different between the QIZ and FTA with a larger Jordanian percent value added under FTA.

Jordan officially launched ASEZA in May 2001. As of 2004, the zone has attracted \$1 billion in private investment and registered 250 companies. The zone is the largest free zone in Jordan at an area of 375 square kilometers. It offers investors a business income tax set at 5 percent, no tariffs on imported goods, streamlined labor and immigration procedures, and no restrictions on foreign equity investment. To date, the two largest projects appear to be tourism related, Tala Bay, a residential and resort complex, at \$350 million and Ayla Oasis, a marine town, at about \$700 million. Over the next 20 years, approximately 50 percent of investments in Aqaba are anticipated to be tourism related, 30 percent in industry, and the remaining in services. In addition, a maintenance center serving Russian made planes operating on Middle East routes started operating in 2007 at the King Hussein International Airport in Aqaba. The project will benefit from incentives offered by ASEZA.

Since 2000 there has been a rapid growth in merchandise exports especially in textile and pharmaceutical products. A significant portion of export growth is due to duty and quota free access to US markets from the QIZs. In addition, job creation was regarded as an essential component of QIZs in Jordan. The number of QIZ jobs created from 2001 to 2004 rose by 46 percent for local workers. The jobs available for expatriate workers, however, rose even more dramatically during the same time period by 360 percent. Many explanations

have been provided for the increase in foreign workers. They include the perception that foreign workers are more efficient, willing to work longer hours, and have higher skills than local workers. However, Kardoosh and Khouri (2004) point out that the Jordanian owned companies have a small proportion of foreign workers and in some cases none at all.

The main economic challenges facing Jordan are reducing dependence on foreign grants, reducing the budget deficit, improving the level of basic government services, and creating investment incentives to promote job creation. To meet these challenges, the government of Jordan has promoted three programs. The first is the Social and Economic Transformation Plan (SETP). This plan focuses on economic reform through private sector development, education, political reform and health care reform. “Jordan First” represents a second major policy initiative by the Jordanian government. This program encourages the participation of all Jordanians in civil society and governance and develops consensus on the future reform agenda of the country. A third reform plan, Education Reform for the Knowledge Economy (ERfKE), addresses the future human capacity requirements of Jordan through improved early childhood, primary, and secondary education. U.S. aid to Jordan provides support for these three initiatives by focusing on: water resources management, economic growth, democracy and governance, education, health, cash transfer, and Millennium Challenge Account (MCA).<sup>7</sup>

The U.S. and Jordan maintain close military cooperation. A U.S. Jordanian Joint military Commission has functioned since 1974. In excess of 300 Jordanian military personnel train in the U.S. each year. Joint U.S. Jordanian military exercises take place on an annual basis. President Clinton in 1996 declared Jordan as a major non-NATO ally of the U.S. giving Jordan priority status in the use of military assistance funds for procurement

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<sup>7</sup> USAID in Jordan. (2008).

through commercial leases, stockpiling of U.S. military material, and priority consideration for transfer of excess defense articles. Jordan has made some contributions in support of U.S. operations in Afghanistan and Iraq. These contributions include committing 600 health care professionals and two military hospitals in Afghanistan and Iraq, courses for Iraqi military and police personnel, and donation of military and police equipment.

### **U.S. Aid to Jordan**

The U.S. has increased aid to Jordan since the mid 1990s to help Jordan strengthen its economy and maintain domestic stability. Congress in 1994 and 1995 forgave the equivalent of \$700 million of Jordanian debt to the U.S. following the Washington Declaration which formally ended the state of war between Jordan and Israel. Since 2003, the U.S. has increased the level of aid in recognition of the Jordan's support for the war against terrorism and operations in Iraq. The U.S. provides both economic and military assistance.

Table 3: U.S. Assistance to Jordan<sup>8</sup>  
(Current year \$ in millions)

	2003 <sup>a</sup>	2004	2005	2006	2007 <sup>b</sup>	2008 <sup>c</sup>
ESF Economic Support Funds	948.000	348.525	348.000	297.000	255.300	263.000
FMF Foreign Military Financing	604.000	204.785	304.352	207.900	251.000	200.000
IMET International Military Education and Training	2.400	3.225	3.000	3.020	3.000	3.067
CSH Child Survival and Health						21.350
Total	1,554.400	556.535	655.352	510.911	534.300	513.219

<sup>a</sup>The numbers reflect \$700 million in economic and \$406 million in military funding to help offset the effects of the war with Iraq on Jordan.

<sup>8</sup> CRS (2007, July 3).

<sup>b</sup>Estimate. The total for 2007 includes additional supplemental assistance in 2007 for military, counter terrorism, and assistance to communities affected by the large influx of Iraqi refugees.

<sup>c</sup>Requested for 2008. In a press release January 5, 2008 USAID in Jordan reported that the U.S. will increase the ESF to \$363.55 million and the FM to \$300. President Bush signed legislation in June 30, 2008 to further increase the ESF by \$200 million and FMF by \$50 million

Economic assistance to Jordan is provided as cash transfers and for specific development programs. The cash transfers have constituted a major portion of the U.S. assistance program since 1997. The cash transfer program serves multiple purposes including providing Jordan with foreign currency to pay down its external non-military debt, helping reduce the international debt burden, and strengthening Jordan's foreign exchange position. The Jordanian government uses cash transfers to service its foreign debt by implementing a multiyear balance of payment program. The U.S. links policy reform objectives in the water, health, economic and social development sectors to the disbursement of the cash transfer program funds. In return, Jordan provides an equal amount of money in Jordanian dinars to support development programs in Jordan. The local currency program associated with the cash transfer is programmed jointly by the Jordanian Ministry of Planning and International Cooperation and USAID. This program has made several development initiatives possible by freeing up money that would have otherwise been used to pay off Jordan's external debt. The U.S. has provided \$1.163 billion for the cash transfer program between 1997 and 2007.

Table 4: U.S. Jordan cash transfer program (current year \$ millions)<sup>9</sup>

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
50	100	50	50	50	125	114.5	238.5	188	167.5	116

<sup>9</sup> U.S. AID. (2008). Retrieved August 21, 2008 from: <http://www.usaid.gov/policy/budget/cbj2007/ane/jo.html>

U.S. assistance administered by USAID programs in Jordan focus on water resource preservation, social sector development and democracy assistance, and improving economic opportunities for Jordanians.

Lack of water poses a serious challenge to economic growth and political stability in Jordan. The country is considered to be one of the most water deprived countries in the world with average per capita use of 200 cubic meters annually in contrast to the U.S. where per capita consumption averages 9,000 cubic meters annually. It is estimated that two thirds of the water goes to supporting low value agricultural crops while demand from urban customer, industry, and tourism goes unmet. In addition, half of urban areas water supply is lost as a result of leakages. USAID's program for water resource preservation supports the reuse of reclaimed water, improving efficiency in municipal and irrigation usage, reducing water losses in the delivery system, and encouraging the substitution of high water usage low economic return activities with more water efficient uses. In 2008, the U.S. donated money to facilitate a World Bank feasibility study of a canal from the Red Sea to the Dead Sea. The aim of the canal is to restore the water level of the Dead Sea and to generate hydroelectric power that can be use for desalination.

Social sector development funding helps facilitate the development of democracy and the strengthening of governance institutions. In addition, the social sector programs fund improvements in primary and reproductive health care and modernize elements of the educational system. In the governance sector, the emphasis is on strengthening the rule of law and the legislative process by improving Parliamentary infrastructure, supporting stronger ties between Parliament and civil society, and improving the status of women. In the area of rule of law, aid efforts are focused on encouraging transparency and efficiency in a

free and independent judicial sector. These objectives will be accomplished by providing technical training for judges and upgrading the judicial training institute to include new coursework and new teaching methodologies. In addition, aid will be provided for the computerization of the court for case management and administration.

Programs focusing on legislative strengthening will upgrade the research capacity and use of information technology for Parliament. To promote greater understanding and participation in legislative issues, funding will be provided for activities that promote stronger linkages between the legislature and civil society, media, and women's groups. The outcomes from strengthening the civil-legislative partnership include improved legislative staff capability, stronger legislative institutional capacity, enhanced key non-governmental organizations' engagement in the policy-making process, and strengthened capacity of the press to report responsibly on issues of parliamentary process.

The goal of Jordan's education reform program is to modernize and redirect education policy by restructuring educational programs, improving physical learning environments, and promoting learning readiness through enhanced early childhood education. With USAID assistance, Jordan launched Education Reform for the Knowledge Economy (ERfKE) initiative in 2003. Under ERfKE, USAID will assist by creating public kindergartens, developing an accreditation system, creating school-to-work programs, and developing an IT curriculum for high school students.<sup>10</sup>

As a component of the social development program, USAID supports programs that stress improvements in primary and reproductive health care, expand and institutionalize high quality health care services, and provide health information at national and sub-national levels in Jordan. The health programs emphasize family planning, reproductive health and

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<sup>10</sup> USAID in Jordan. (2008). Retrieved September 20, 2008 from: <http://jordan.usaid.gov/>.

maternal and child health services. In addition to the activities that strengthen the delivery of maternal and child health services, USAID is working to improve important health indicators such as life expectancy, infant mortality, and morbidity. To improve important health management systems, USAID is assisting in adopting a more competitive legal and regulatory framework for the health sector that includes health insurance reforms, decentralization of hospitals, development of systems for continuous medical education, and adoption of relevant health provider incentives. Finally, U.S. funded programs attempt to combine primary health services strategies and programs that prevent and treat chronic diseases and assist in the development and implementation of a national health communication strategy encouraging Jordanians to practice healthy lifestyles.

The economic opportunities program supports the development of a more transparent and efficient public sector, a more effective legal and regulatory system, and increased depth of private sector growth. Increased competitiveness in the global economic system is essential for Jordan's economic growth. Jordan requires technical assistance for legal and regulatory reform, intellectual property protection, information and communication technologies, and the creation of a more efficient financial sector. These measures will ensure that Jordan can seize investment opportunities related to global economic integration and promote a competitive private sector. USAID programs focus on institutional capacity building for the agencies regulating and facilitating trade and focus on ensuring that Jordan's public and private sectors have the ability to respond quickly to trade and investment opportunities. In addition, USAID has implemented aid programs to provide support for participation and implementation of trade negotiations such as WTO accession and U.S.-FTA agreements.

Jordan has been able to benefit from funding from the Millennium Challenge Corporation, a U.S. government corporation designed to work with developing countries to promote sustainable economic growth. MCC is based on the principle that aid should reinforce good governance, economic freedom and investments in people. MCC is responsible for administering the Millennium Challenge Account (MCA), which receives funds appropriated by Congress every year. MCC provides two different kinds of monetary assistance — compact agreements, to fund specific programs targeted at reducing poverty and stimulating economic growth, and threshold agreements, to assist countries that have not yet qualified for MCA compact funding, but have demonstrated a significant commitment to improve their performance on the eligibility criteria for MCA Compact funding. In October 2006, the MCC signed a \$25 million Millennium Challenge Threshold Program Agreement with the Government of Jordan. The program will help Jordan accelerate implementation of its reform initiatives focused on improvements in public administration, civil liberties, infrastructure and the economy. In November 2006, Jordan was selected as one of the countries eligible for additional assistance from MCC and Jordan began the process of applying for MCC compact assistance. USAID is the lead U.S. Government agency tasked with implementing the Jordan Threshold Program.

In addition, funds have been made available to Jordan by the U.S. Trade Development Agency (USTDA) for projects in the telecommunication, power, water, energy, and transportation sectors. Currently, USTDA is funding a National Freight Information and Transportation Hub pilot and feasibility study for a nation wide freight information transportation system that allows cargo to be catalogued and tracked across a supply chain via a web-based platform for instant information. In addition, USTDA is providing a grant to

the Jordanian Ministry of Planning and International Cooperation for a feasibility study on an improved wastewater collection and treatment system to serve the communities of the Zarqa River Basin in Jordan.<sup>11</sup>

As part of the Middle East Partnership Initiative (MEPI), Jordan has received funding for non-governmental organizations, businesses, and universities. The aim of MEPI is to fund programs that advance democratic reform, support the participation of civil society in government, empower women, and support the creation of small and medium size enterprises.<sup>12</sup>

Table 5: USAID program budget for Jordan (current year \$ millions)<sup>13</sup>

	2004	2005	2006	2007
Water Resources Management	39.600	50.000	58.000	45.000
Social Sector Development	32.850	62.609	45.000	63.000
Economic Opportunities	37.550	47.391	42.000	42.000

Military assistance to Jordan has concentrated on helping Jordan modernize its security forces and meet current security threats. FMF funds in 2005 recognized Jordan's support for the war on terror and help in rebuilding the Iraq security forces by providing funding to assist Jordan in establishing the King Abdullah II Center for Special Operations Training, a regional training center to help regional security forces, military forces, and individuals to meeting existing and emergent threats. In 2007, FMF included funding for

<sup>11</sup>United States Trade and Development Agency. (2008). Retrieved September 24, 2008 from: <http://www.ustda.gov/>.

<sup>12</sup>Middle East Partnership Initiative. (2008). Retrieved September 24, 2008 from: <http://mepi.state.gov/>.

<sup>13</sup> U.S. AID. (2008). Retrieved August 21, 2008 from: <http://www.usaid.gov/policy/budget/cbj2007/ane/jo.html>

logistical expenses incurred by Jordan in support of U.S. operations. Recently, U.S. FMF has been directed toward upgrading Jordan's forces. The air force purchased upgrades to U.S. made F-16 fighter, medium range air-to-air missiles, and radar systems. In addition, Jordan purchased Black Hawk helicopters to enhance border monitoring and counter terror capabilities. The U.S. delivered three anti-missile batteries to Jordan in early 2003. In 2008, Jordan became eligible to receive U.S. Excess Defense Articles (EDA).

### **U.S. Jordan Trade**

The U.S. designed the Generalized System of Preferences (GSP) in 1976 to provide preferential duty free entry for certain products from developing countries. GSP was intended to promote economic growth and development in participating countries. GSP was the first preferential export program offered to Jordan by the U.S. Jordan's main exports under GSP were jewelry, organic chemicals, edible preparations, stone and marble, and beverages. Despite the GSP program, Jordan exports to the U.S. were minimal, reaching \$11 million in 2005. The GSP share of total exports to the U.S. is declining over time and it appears that exports are using the FTA program for exports.

The volume of bilateral trade between the U.S. and Jordan continued to be quite modest in the 1990s. However, the volume increased significantly in the late 1990s. In 2000, Jordan ranked as the U.S.'s 98<sup>th</sup> trading partner with \$73.3 million in imports from Jordan and \$316 million in exports. Trade had been mainly in one direction, from the U.S. to Jordan. However, there was a perceptible shift in the level of Jordanian exports in 2001. By 2005, the U.S. was Jordan's top export market at 29 percent of volume of exports and fourth supply source and Jordan ranked as the U.S.'s 70<sup>th</sup> trading partner. Trade between the two countries reached the

\$2 billion mark. Over 99 percent of Jordan’s exports to the U.S. were non-agricultural goods where as the imports to Jordan are 84.34 percent non-agricultural. The high level of bilateral trade is a result of two major initiatives, the Qualified Industrial Zone (QIZ) Agreement and the U.S. Jordan Free Trade Agreement (FTA).

Despite the change in volume of trade between the two nations, there was no significant shift in the composition of the traded goods. Agricultural products, mainly cereals and tobacco, constituted four of the top ten exports to Jordan. The other leading exports include manufactured items such as airplane and helicopter parts, wood pulp, vessels, turbines, and radio transceivers. Jordanian exports to the U.S. were primarily textiles, apparel, suitcases, and jewelry.

Table 6: U.S. Jordan imports, exports, and balance (current year \$ millions)<sup>14</sup>

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Imports	25.3	16.4	30.7	73.3	229.2	412.4	673.5	1093.4	1266.8	1422.1	1,328.9
Exports	402.5	353.0	275.7	316.9	339.0	404.4	492.4	551.5	644.2	650.3	856.2
Balance	377.2	336.6	245.0	243.6	109.8	-8.0	-181.0	-541.9	-622.7	-771.7	-472.7

The QIZ agreement was authorized by Congress in 1996. The program was intended to strengthen trade between the economies of Jordan and Israel and serve as a peace dividend by providing Jordanian goods duty and quota free access to the U.S. market. It was also anticipated that the QIZs would attract Foreign Direct Investment to Jordan and would result in local job creation. Approximately 75 percent of Jordanian goods entering the U.S. do so

<sup>14</sup> U.S. Census Bureau. (2008). Retrieved September 23, 2008 from: <http://www.census.gov/foreign-trade/balance/c5110.html>.

under the QIZ program. The QIZs are industrial zones that house manufacturing processes and can be compared to free trade zones. The differences between the QIZs and free trade zones are that QIZs have operations in both Jordan and Israel; they produce goods intended for only the U.S. market; they are subject to oversight from the U.S., Jordan, and Israel in the determination of tariff relief. QIZ industrial parks are designated as such from the outset.

QIZs articles must be substantially transformed in the manufacturing process. 35 percent of the appraised value of the article must be generated in a QIZ. The remaining 65 percent can come from anywhere in the world. Of the 35 percent, 20 percent of the content must originate in Jordan or Israel, 15 percent from either the U.S., Israel, West Bank/Gaza Strip, or Jordan. However, the articles must contain a minimum of 8 percent Israeli content and 11.7 percent Jordanian content. Eligibility of products is determined by a Jordanian-Israeli committee with a U.S. observer and is reviewed on a 12 month basis. Both the private and public sector play a role in the QIZs. Jordan currently has 13 QIZs, three are administered by the Jordan Industrial Estates Corporation, a semi governmental corporation with financial and administrative autonomy created in 1985, to promote the establishment of industrial estates in Jordan.

The apparel industry constitutes 99.9 percent of all QIZ exports to the U.S. While the QIZs have been successful in increasing the volume of exports to the U.S., they are viewed as a low investment processes with minimal linkages to the Jordanian economy. QIZ contribution to new job generation has been uncertain. The majority of jobs created have been for low skilled labor and QIZ owners have brought in large numbers of foreign workers under temporary labor contracts.

Table 7: Employment in QIZs<sup>15</sup>

	2001	2002	2003	2004	2005
Jordanian Labor	13,300	13,900	15,200	18,700	18,500
Foreign Labor	5,700	9,600	11,300	12,600	36,200

The U.S. Jordan Free Trade Agreement (FTA) was signed in 2000 and came into effect in 2001. This agreement is the first U.S. free trade agreement with an Arab country and reflects the importance that the U.S. attaches to its bilateral relations with Jordan. Under the terms of the agreement the two nations agreed to a series of phased tariff reductions. It is anticipated that all tariffs would be eliminated in 2010 except for the tariffs on tobacco, tobacco products, and alcohol. FTA followed a graduated system of tariff reductions over a ten year period. Currently 75 percent of all Jordanian goods entering the U.S. take advantage of the QIZ agreement enabling duty free access for the goods. This could change with the full implementation of FTA in 2010 since the rules of origin are more advantageous under FTA enabling Jordanians greater flexibility in sourcing material. The QIZ agreement imposes a minimum of eight percent requirement for Israeli inputs. In addition, articles entering the U.S. under FTA have no restrictions as to the territorial area of manufacturing in Jordan. However, all QIZ exports need to be manufactured and exported from designated QIZ parks. The FTA agreement does encourage production sharing using rules of origin. This allows Jordanian exports with 35 percent Jordanian value added to qualify for import to the U.S. under FTA. In addition, the FTA agreement allows up to 15 percent value to come from U.S. inputs, thus Jordanian value added can be 20 percent and qualify for entry to the U.S. under

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<sup>15</sup> Jordan Ministry of Trade and Industry, QIZ unit and Ministry of Labor

FTA. The FTA also compels the U.S. and Jordan to implement intellectual property rights (IPR) for software, copyrights, pharmaceuticals, and trademarks under the World Intellectual Property Organization (WIPO) multilateral agreements. In addition, under FTA both nations resolved not to relax environmental laws to encourage trade. The U.S. Jordan FTA includes worker rights provisions in the body of the trade agreement rather than a side agreement. This is the first instance of a U.S. trade agreement including labor provisions and dispute settlement provisions in the text of the agreement.

Exports from Jordan under the Normal Trade Relations (NTR) are subject to the WTO prevailing tariff rates. However, the majority of articles exported under NTR may enter the U.S. duty free under GSP, FTA, or QIZ. The use of NTR may be due to the lack of awareness of export programs or lack of compliance to the rules of origin and value added.

Table 8: Jordan exports to the U.S. by export program (current year millions of dollars)<sup>16</sup>

	1999	2000	2001	2002	2003	2004	2005	2006	2007
FTA	-	-	-	13	28	21	246	309	313
QIZ	-	30	181	369	564	927	945	1022	923
GSP	5	10	9	6	35	90	12	15	12
NTR	26	32	39	24	46	55	64	75	85
Total	31	73	229	412	673	1093	1267	1421	1333

The hope was that U.S. Jordan trade liberalization would stimulate FDI inflows into Jordan as multinational and regional companies take advantage of the trade agreements

<sup>16</sup> USTIC Interactive Tariff and Trade Data We. Retrieved October 1, 2008 from <http://dataweb.usitc.gov/>

between the two nations to facilitate the entry of goods to the U.S. markets. Multinational companies would relocate some operations to Jordan to take advantage of duty free access to the U.S. and U.S. operations would reroute their purchases to Jordan to reduce production and import costs to benefit from either the FTA or QIZ arrangements. However, regional instability continues to hinder Jordan's economic development by adversely affecting the investment climate and the attraction of FDI into the country. While FDI inflows have increased in the past decade, the increase has been erratic. Growth in the amount of U.S. FDI in Jordan has been very weak.

Table 9: FDI inflows to Jordan (current year millions of dollars)<sup>17</sup>

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Total FDI	310	158	800	120	64	424	620	390	1200	1480
U.S. FDI	n/a	30	n/a	n/a	31	31	34	72	78	84

## **Conclusion**

Jordan's small size and geographical location have made the nation extremely vulnerable to regional politics. The same regional political factors continue to define and affect U.S. Jordanian bilateral military and intelligence cooperation. These factors include the stability of Iraq, the stability of the Jordanian regime, and the role of Jordan in the peace process. The bilateral relations have progressed from a low in the 1990s when Jordan

<sup>17</sup> Jordan Ministry of Planning and International Cooperation (2004) and U.S. Department of Trade (2008). Retrieved September 23, 2008 from <http://www.state.gov/e/eeb/ifd/2008/100887.htm> and <http://www.state.gov/e/eeb/ifd/2006/100887.htm>

refused to join the alliance against Iraq to a high degree of cooperation in the late 1990s as a direct result of Jordan's role in the peace process and its contribution to the stability in Iraq.

As a result of U.S. confidence in Jordan, the U.S. has increased foreign economic and military assistance to the nation. Military and intelligence cooperation between the two nations developed in the form of military sales, joint exercises and training, and the designation of Jordan as a major non-NATO ally. To strengthen the Jordanian economy and maintain its domestic stability, the U.S. negotiated a FTA and a QIZ agreement with Jordan. However, regional instability continues to adversely affect Jordan's economic development.

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